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## Philippines

## Dairy and Products Annual

## Situation and Outlook

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**Report Highlights:**

Producing less than one percent of its growing dairy requirement of 1.82 million metric tons (MMT) in 2013, the Philippines is a major global importer of dairy products, especially milk powder. Despite an expanding food processing industry, high prices in early 2013 are expected to result in total annual imports remaining at 2012 levels of just under 2 MMT. Major suppliers are New Zealand (46 percent), the United States (29 percent), and Australia (8 percent). U.S. dairy exports to the Philippines are forecast to reach a record \$325 million in 2013, up from the 2012 record of \$317 million. While milk powder exports dominate this category, there has also been strong growth in U.S. whey and buttermilk sales. Dairy products are the country's third largest agricultural import after wheat and soybean meal.

**Commodities:**

Dairy, Dry Whole Milk Powder

Dairy, Milk, Nonfat Dry

Dairy, Cheese

Dairy, Milk, Fluid

**Production:**

The country produces less than one percent of its total annual dairy requirement and imports the balance. Data from the Philippine National Dairy Authority (NDA) shows that local dairy production was at 18,450 metric tons (MT) in 2012, up from 16,450 MT in 2011. The value of dairy production in 2012 amounted to P560 million (\$13 million). Local milk production is projected to reach 19,000 MT in 2013 and will likely continue expanding on an annual basis due to strong demand for fresh milk and growing dairying capabilities.

As of June 2013, the Bureau of Agricultural Statistics estimated the nation's total dairy herd at 19,690 dams and does, an increase of over 10 percent from the previous year. These were comprised of dairy cattle (9,847), water buffalo (8,287) and dairy goats (1,556). Dairy cattle numbers increased in 2013 due in most part to the ongoing government herd build-up programs and the growing number of dairy multiplier farms of the NDA. Dairy cattle numbers are expected to continue increasing by about 1,000-1,500 head per year for the next several years.

<b>Total Dams/Does</b>		
	<b>2012</b>	<b>2013</b>
Cattle	8,572	9,847
Carabao	7,861	8,287
Goats	1,390	1,556
<b>TOTAL</b>	<b>17,823</b>	<b>19,690</b>

Source: Bureau of Agricultural Statistics

The average Philippine milk production per animal (8 liters/day) remains low due mainly to poor feed and management practices. According to various sources, the average daily milk yield in the United States is around 30 liters/day and about 20 liters/day in the United Kingdom. According to the NDA, the average farm gate price of milk as of July 2013 was P30.33/liter (\$0.70/liter). By contrast the corresponding farm gate price of milk in the U.S. is about \$0.37/liter (\$16.90 hundred weight) as of July 2013.

There are four main types of dairy farms in the Philippines: individual smallholder producers (who consume and sell locally what they produce), smallholder cooperatives (who deliver their milk to a collection point for transport to a processing plant), commercial farms (which supply processors), and government farms (which supply school and rural community feeding programs).

In answer to the country's cold chain challenges and limited production, a significant amount of Philippine fluid milk supply is actually Ultra High Temperature (UHT) milk reconstituted from imported milk powder.

**Consumption:**

NDA estimates 2013 domestic dairy requirements to be at 1,820 MMT. According to FAO estimates, annual per capita milk consumption in the Philippines is at 22 kg, compared with Thailand at 26 kg, Malaysia at 52 kg and the United States at 287 kg. With a strong economy and a growing population of roughly 100 million in 2013, the Philippines is a large and rapidly expanding market for milk and milk products. Other factors contributing to the long term trend of strong growth in local dairy consumption are expanding cold chain capacity, an increase in the number of supermarkets, and a blossoming food processing industry. In addition, the strong peso (the Philippine currency has appreciated by almost 25 percent since 2004) and the weak U.S. dollar vis-à-vis competitor countries make the Philippine market attractive for U.S. dairy exporters.

According to the NDA, half of smallholder milk production goes to school and community milk feeding programs and the rest to local commercial sales or household consumption. With dairy production in the country being more community-based, maintaining the quality of fresh milk is a challenge due to the lack of processing and distribution systems, and a dependable, continuous cold chain.

Below are retail prices of various dairy products as of March 2013:

<b>Retail Prices of Dairy Products (as of March 2013)</b>	
Powdered Filled Milk (160g)	P72.50
Evaporated Milk (158 ml)	P16.50
Butter (225g)	P78.00
Cheese, processed (200g)	P39.25
Ice Cream (1 gallon)	P380.00

Source: UAP Food and Agribusiness Monitor

Fresh fluid milk in a mid-range Manila supermarkets sells for P90-120 per liter (\$2.20-2.93).

**Trade:****U.S. Exports to the Philippines Increase 13% in 2012**

Despite record exports of \$317.5 million (up 13 percent) in 2012, the Philippines slipped one notch to become the 5th largest market for U.S. dairy products. U.S. dairy exports in 2013 are expected to grow slightly (by about 2-3 percent), reaching \$325 million by the end of the year. The top U.S. dairy exports to the Philippines in 2012 were nonfat dry milk powder (\$142.7 million), buttermilk (\$41.7 million) and whey (\$34.4 million).

**Philippine Dairy Imports**

Dairy products are currently the country's third largest agricultural import after wheat and soybean meal. Despite an expanding food processing industry, total 2013 imports of dairy products are forecast to slightly decline from the previous year's level of 1,955 MT (LME) to 1,900 MT (LME) due to high global prices early in the year. Post expects imports in 2014 to increase slightly to 2,000 MT (LME) as growth in local demand will likely continue to exceed any increases in domestic supply.

News of a late season drought in New Zealand (the top supplier to the Philippines) and a lack of exportable supplies of skim milk powder (SMP) and whole milk powder (WMP) from the EU led to a sharp rise in dairy prices in early 2013. Prices have since come down but are still expected to remain relatively strong for the rest of the year.

The major country suppliers to the Philippines by volume are New Zealand with 46 percent share of total imports, the United States with 29 percent, and Australia at 8 percent. U.S. dairy exports to the Philippines have continued to rise dramatically due in part to the weak U.S. dollar vis-à-vis major competitor countries, the strengthening peso, as well as the supply problems in major dairy producing countries.

Skim Milk Powder (SMP) and Whole Milk Powder (WMP) imports currently comprise about 56 percent of total dairy imports. SMP imports declined by five percent while WMP imports increased 13 percent in 2012. Liquid milk imports fell 24 percent. Imports of butter and other dairy spreads also declined by 14 percent while imports of cheese increased by 26 percent.

<b>VOLUME OF DAIRY IMPORTS</b> <b>('000 MT, in LME) [1]</b>			
	<b>2011</b>	<b>2012</b>	<b>Jan-Jun 2013</b>
<b>1. Milk and Cream</b>			
• Skim Milk Powder	877.63	833.10	419.21
• Whole Milk Powder	223.14	252.06	118.20
• Butter Milk Powder	159.92	195.82	84.50
• Whey Powder	302.73	324.75	162.02
• Liquid (RTD) Milk	45.80	34.73	22.53
• Evaporated Milk	0.66	1.86	0.31
• Cream	14.20	15.61	2.69
• Condensed Milk	9.06	7.62	3.72
• Other	32.07	57.30	32.98
<b>Total Milk and Cream</b>	<b>1,665.21</b>	<b>1,722.85</b>	<b>846.16</b>
<b>2. Butter, Butterfat &amp; Dairy Spreads</b>	<b>162.51</b>	<b>140.47</b>	<b>55.78</b>
<b>3. Cheese</b>	<b>70.47</b>	<b>89.00</b>	<b>37.04</b>
<b>4. Curd</b>	<b>2.22</b>	<b>3.09</b>	<b>2.34</b>
<b>Total Imports</b>	<b>1,903.41</b>	<b>1,955.41</b>	<b>941.32</b>

Source: National Dairy Authority and National Statistics Office

<sup>[1]</sup> To get the LME, NDA uses a conversion factor of 8.02 liters per 1 kg of whole and non-fat dry milk powder and 5.51 liters per 1 kg of cheese

According to trade and industry contacts, imported dairy products are used as follows:

**Skim Milk Powder:** Recombined sweetened condensed milk, recombined UHT milk, ice cream, infant and follow-on formulas, and medical nutrition formulas.

**Whole Milk Powder:** Recombined UHT milk, ice cream, infant and follow-on formulas, medical nutrition formulas, and instant powdered milk.

**Butter Milk Powder:** Recombined sweetened condensed milk, ice cream, and bakery.

**Whey Powder:** Recombined sweetened dairy creamer, ice cream, infant and follow-on formulas, processed meat, processed food, confectionery, bakery, and animal feed.

**Cheese Curd:** Processed cheese, cheese spreads, and processed food.

**Liquid Milk:** Retail, primarily organic and extended shelf life (ESL) milk.

**Cheese:** Retail, quick service restaurants and fast food chains

### **Philippine Dairy Exports**

Total dairy exports declined 53 percent in 2012 with exports of milk and cream comprising about 98 percent of the total volume. The main countries of destination were Malaysia (43 percent), Thailand (23 percent) and Bangladesh (12 percent). Exports in 2013 are expected to drop even lower due in part to increasing prices of Philippine dairy products as a result of the stronger peso.

<b>Volume Of Philippine Dairy Exports (In MT, LME)</b>			
	<b>2011</b>	<b>2012</b>	<b>Jan-Jun 2013</b>
Milk and Cream	291,016	135,556	4,674
Butter/Butterfat	248	68	37.41
Cheese	4,550	2,653	1,616
<b>TOTAL EXPORTS</b>	<b>295,815</b>	<b>138,277</b>	<b>6,327</b>

Source: National Dairy Authority and National Statistics Office

### **Policy:**

The Philippine Department of Agriculture (DA) continues to make the development of the Philippine dairy industry a priority with a special emphasis on improving local supply of fresh milk. While the DA accepts that the Philippines cannot compete in the powdered milk market, it believes that it can greatly augment the supply of fresh milk to the market.

The NDA is the DA's primary agency overseeing and aiding the development of the Philippine dairy sector. The NDA aims to accelerate dairy herd build-up and milk production, enhance the dairy business through delivery of technical services, increase coverage of milk feeding programs and promote milk consumption.

At the heart of the NDA strategy is the Herd Build-Up Program. This program aims to expand local dairy production through the importation of dairy animals, embryos and equipment, and through the upgrading of local animals to dairy breeds via breeding programs, the establishment of multiplier farms, and the preservation of existing stocks. The following are sub-programs of the Herd Build-Up Program:

1. **Save-the-Herd (STH)** - Promotes animal trading, dairy enterprise enhancement and herd conservation. Under this program, the STH partner receives a dairy animal from NDA which he

is obligated to rear, condition and impregnate according to prescribed dairy husbandry management standards.

2. Herd Infusion - Includes importation of dairy stocks, diversification of sources and local procurement of dairy animals.
3. Improved Breeding Efficiency - Breeding services to maximize the reproductive capacity of dairy animals either through artificial insemination or natural (bull) breeding.
4. Animal Financing - Tailoring of animal loan programs to the dairy business cycle and identifying new sources of affordable loans.
5. “Palit-Baka” Scheme or Dairy Animal Distribution - Refers to the program whereby NDA distributes a potential dairy animal to an eligible participant who, in turn, would eventually provide NDA with a female dairy animal as payment in kind.
6. Upgrading of Local Animals - Artificial insemination of local cattle with 100% purebred Holstein-Friesian semen. Calves born from upgrading programs are distributed to new farmers interested in dairying.
7. Breeding/Multiplier Farm Operations - Engaging and encouraging private-public partnerships in producing local born dairy stocks.
8. Bull Loan – Loan program that provides purebred and crossbred dairy bulls to regional field units of the Department of Agriculture or to other project partners for semen production, collection and processing purposes.

Source: National Dairy Authority

**Tariffs:** The 2013 MFN tariff rates for dairy and dairy products remain unchanged from previous year.

<b>TARIFF SCHEDULE</b>			
<b>H.S. Code</b>	<b>Description</b>	<b>Rate of Duty</b>	
		<b>MFN</b>	<b>CEPT</b>
<b>0401</b>	<b>Milk and cream, not concentrated nor containing added sugar or other sweetening matter</b>		
0401.10.00	Of a fat content, by weight, not exceeding 1 percent	3	3
0401.20.00	Of a fat content, by weight, exceeding 1 percent but not exceeding 6 percent	3	3
0401.30.00	Of a fat content, by weight, exceeding 6 percent	3	3
<b>0402</b>	<b>Milk and cream, concentrated or containing added sugar or other sweetening matter</b>		
0402.10.00	In powder, granules or other solid forms, of a fat content, by weight, not exceeding 1.5 percent	1	3-5
0402.21.00	In powder, granules or other solid forms, of a fat content, by		

	weight, exceeding 1.5 percent		
	Not containing added sugar or other sweetening matter	1	3-5
0402.29.00	Other	1	3-5
0402.91.00	Other		
	Not containing added sugar or other sweetening matter	5	5
0402.99.00	Other	5	5
<b>0403</b>	<b>Buttermilk, curdled milk and cream, yogurt, kefir and other fermented or acidified milk and cream, whether or not concentrated or containing added sugar or other sweetening matter or flavored or containing added fruit, nuts or cocoa</b>		
0403.10	Yogurt		
0403.10.10	Containing fruits, nuts, cocoa or flavoring matter; liquid yogurt	7	5
0403.10.10	Other	7	5
0403.90	Other		
0403.90.10	Buttermilk	3	3
0403.90.90	Other	7	5
<b>0404</b>	<b>Whey, whether or not concentrated or containing added sugar or other sweetening matter; products consisting of natural milk constituents, whether or not containing added sugar or other sweetening matter, not elsewhere specified or included</b>		
0404.10.00	Whey or modified whey, whether or not concentrated or containing added sugar or other sweetening matter	1	3
0404.90.00	Other	3	3
0405	Butter or other fats and oils derived from milk; dairy spreads		
0405.10.00	Butter	7	5
0405.20.00	Dairy spreads	7	5
0405.90.00	Other	1	0
<b>0406</b>	<b>Cheese or curd</b>		
0406.10.00	Fresh (unripened or uncured) cheese, including whey cheese, and curd	3	0
0406.20	Grated or powdered cheese, of all kinds:		
0406.20.10	In containers of gross weight exceeding 20 kgs.	3	0
0406.20.90	Others	7	5
0406.30.00	Processed cheese, not grated or powdered	7	5
0406.40.00	Blue-veined cheese	3	0
0406.90.00	Other cheese	7	5

Source: Tariff and Customs Code 2006

**ASEAN-Australia-New Zealand Free Trade Agreement (AANZFTA):** The AANZFTA was signed by Australia and New Zealand and the ten ASEAN members in 2009. Since 2010, milk powder, cheese, whey and buttermilk from Australia and NZ are able to enter the Philippines duty free; U.S. milk

powder and whey has a MFN duty of 1 percent; cheese 3-7 percent, and buttermilk 3 percent.

The Philippine tariff commitments under the AANZFTA may be viewed at the following link:

[http://www.dfat.gov.au/trade/fta/asean/aanzfta/annexes/aanzfta\\_annex1\\_philippines\\_tariffschedule.pdf](http://www.dfat.gov.au/trade/fta/asean/aanzfta/annexes/aanzfta_annex1_philippines_tariffschedule.pdf)

### **Marketing:**

The greater Manila area remains as the major fresh milk market in the country and is classified into business and consumer sectors. The business sectors include the institutional and retail operations such as coffee shops, hotels, restaurants, supermarkets and small retailers. The consumer sectors include households and schools through the government milk feeding program.

The main targets of local milk processors are the institutional buyers, especially coffee shops. Specialty coffee shops are good markets because of the continuing trend towards coffee consumption as a lifestyle in the country. Locally sourced, fresh milk dominates this market because of its superior foaming properties, as compared to UHT milk. The major suppliers of fresh milk to coffee shops are processors from Southern Luzon, particularly from Batangas and Laguna. Other suppliers to coffee shops produce UHT milk reconstituted from imported milk powder and packaged under their own brand.

The specialty coffee shop industry is projected to sustain growth of 20 percent over the next five years. Analysts attribute this expansion to the growing consumer preference for specialty coffee and the improving image of coffee in general. (Food and Agribusiness Monitor, University of Asia and the Pacific).

### **Production, Supply and Demand Data Statistics:**

Dairy, Milk, Fluid	2012	2013	2014
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Philippines						
	Market Year Begin: Jan 2012		Market Year Begin: Jan 2013		Market Year Begin: Jan 2014	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Cows In Milk	15	15	16	17		18
Cows Milk Production	18	18	19	19		20
Other Milk Production	3	3	3	3		3
Total Production	21	21	22	22		23
Other Imports	45	40	50	45		50
Total Imports	45	40	50	45		50
Total Supply	66	61	72	67		73
Other Exports	0	0	0	0		0
Total Exports	0	0	0	0		0
Fluid Use Dom. Consum.	57	53	63	58		62
Factory Use Consum.	9	9	9	9		11
Feed Use Dom. Consum.	0	0	0	0		0
Total Dom. Consumption	66	62	72	67		73
Total Distribution	66	62	72	67		73
1000 HEAD, 1000 MT						

Dairy, Milk, Nonfat Dry Philippines	2012		2013		2014	
	Market Year Begin: Jan 2012		Market Year Begin: Jan 2013		Market Year Begin: Jan 2014	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	10	10	8	8		12
Production	0	0	0	0		0
Other Imports	105	105	110	110		115
Total Imports	105	105	110	110		115
Total Supply	115	115	118	118		127
Other Exports	12	12	15	6		8
Total Exports	12	12	15	6		8
Human Dom. Consumption	95	95	95	100		105
Other Use, Losses	0	0	0	0		0
Total Dom. Consumption	95	95	95	100		105
Total Use	107	107	110	106		113
Ending Stocks	8	8	8	12		14
Total Distribution	115	115	118	118		127
1000 MT						

Dairy, Dry Whole Milk Powder Philippines	2012	2013	2014
	Market Year Begin:	Market Year Begin:	Market Year Begin:

1000 MT1000 MT

